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February 17, 2009

AGENDA ITEM 10a

TO: MEMBERS OF THE INVESTMENT COMMITTEE

- I. SUBJECT:** International Accounting Standards - Relationship with International Corporate Governance Network (ICGN) and International Accounting Standards Board (IASB)
- II. PROGRAM:** Global Equity – Corporate Governance
- III. RECOMMENDATION:** Informational
- IV. BACKGROUND:**

The International Corporate Governance Network (ICGN) is a global membership organization of institutional and private investors, corporations, and advisors from 40 countries. CalPERS is a founding member of ICGN, and as such advocates and supports the expansion of its core principles through the use of the ICGN Principles. ICGN's investor members are responsible for global assets of U.S. \$15 trillion. The mission of the ICGN is to meaningfully contribute to the continuous improvement of corporate governance best practices through the exchange of ideas and information across borders. .

In April of 2007, CalPERS began its involvement in the Accounting and Auditing (A&A) Practices Committee for ICGN, as CalPERS transitioned to Chair of the Committee and staff supporting this committee. George Diehr, CalPERS Board Member, became Co-Chair for the Committee and CalPERS staffs, Mary Hartman Morris and Janice Smith-Pearson, serve as liaisons. The purpose of the Committee is to address and comment on accounting and auditing practices from an international investor and shareowner perspective. Through collective comment and engagement, it strives to ensure the quality and integrity of financial reporting around the world.

The Committee has provided numerous comment letters which also support CalPERS Global Principles of Accountable Corporate Governance. Additionally, through this relationship in ICGN, CalPERS has had opportunities for exposure to, and interaction with, global entities such as the International Accounting Standards Board (IASB).

In October of 2008, Mr. Diehr and Ms. Morris met in San Francisco with Sir David Tweedie, Chairman of the IASB; Professor Mary E. Bart and Stephen Cooper, both members of the IASB; and, Thomas Seidenstein, Director of Operations of the International Accounting Standards Committee Foundation (IASC Foundation-Oversight Trustees of the IASB). The meeting was the first step in establishing a beneficial, ongoing dialogue and relationship between CalPERS and the IASB. Attachment 1 is a copy of the information shared during this discussion.

The IASC Foundation is responsible for the governance and oversight, including funding of the IASB, and is a not-for-profit, private sector organization with 22 Trustees. Attachment 2 is a copy of the organizational structure of the IASC Foundation, and the IASB and its advisory groups:

- Standards Advisory Council (SAC), which was created to advise the IASB on its agenda and work programs and is a forum of representatives which include: user groups; preparers; financial analysts; academics; auditors; regulators; and, professional accounting bodies.
- International Financial Reporting Interpretations Committee (IFRIC), which is the interpretative body of the IASC Foundation and provides authoritative guidance on accounting treatments.

This structure can be compared to the United States' Financial Accounting Foundation (FAF), which was organized in 1972, as an independent, private-sector organization with responsibility for the oversight, administration and finances of:

- The Financial Accounting Standards Board (FASB), established in 1973.
- The Governmental Accounting Standards Board (GASB), established in 1984.
- The Financial Accounting Standards Advisory Council (FASAC), an advisory council.
- The Governmental Accounting Standards Advisory Council (GASAC), an advisory council.

From 1973 to 2001, the International Accounting Standards Committee (IASC) existed and issued International Accounting Standards (IAS). However, when the IASC transitioned to the IASB in 2001, their mission included focusing on developing, in the public interest, a single set of high quality, understandable international financial reporting standards (IFRS) for general financial statements. CalPERS has a vested interest in these IFRS, as both an investor and user of financial reporting.

In November of 2007, CalPERS responded to the Security and Exchange Commission's (SEC) Concept release on allowing U.S. issuers to prepare financial statements in accordance with IFRS. (Attachment 3) In late August of 2008, the SEC established a tentative road map for U.S. companies to adopt international financial reporting standards by 2011. A more recent roadmap was issued by the SEC, requesting comment <http://www.sec.gov/rules/proposed/2008/33-8982.pdf>

Today more than 100 countries around the world, including all listed companies in the European Union, currently require or permit IFRS reporting. Approximately 85 of those countries require IFRS reporting for all domestic, listed companies.

Observations

1. IFRS and US. GAAP are converging, meaning that the eventual adoption of IFRS in the US may not require a major transition. Though there are many different perspectives on how smooth convergence will be, current differences in the two standards seem to be more in the details, as opposed to the principles. Attachment 4 contains an Institute of Internal Auditors article, Oct 2008 "Getting up to speed with IFRS".
2. There is a high level of cooperation and mutual support between the SEC and IASB. At the October 2008 meeting, IASB members stated they typically speak with SEC staff on an ongoing basis to help ensure the convergence of standards.
3. Universities should be encouraged to immediately start teaching concepts and principles of IFRS. For example, accounting programs might adopt "certificates" for students who take several courses focused on IFRS.
4. IASB is eager to have more investors on its Board. There is an opportunity for additional US investors, with two US members' terms ending soon. CalPERS should take an active role in this process by encouraging investor participation and nomination. However, it has yet to be determined if a member of CalPERS investment staff could feasibly hold a position on this board. Some items to note: the IASB board is a full-time job, although they do have a few part-time (half-time) members; and, residence in England is more-or-less required for board members, who serve a five year term.
5. There are opportunities for "visiting" positions on the IASB staff. CalPERS staff is requesting more information on specific topics, such as term of commitment, salaries, and qualifications. Time spent on the IASB staff might be viewed like a sabbatical; it could provide an excellent opportunity for professional development.
6. IASB encourages CalPERS to take a more active role in setting standards and policies of IFRS. IASB believes CalPERS commands considerable respect outside of the US and should do more to influence outcomes. CalPERS, along with other institutional investors, need to make their interests known and provide more input through comment letters and participation in roundtables, especially on controversial issues or where some interests advocate for standards that are contrary to the interests of investors.

7. Funding of the IASB is established by the IASC Foundation and has established national funding regimes through country-specific guidelines. See website for more details:

<http://www.iasb.org/About+Us/About+the+IASC+Foundation/2008+funding+commitments.htm>

8. CalPERS should consider institutional investors contributing directly, or through organizations such as the Council of Institutional Investors, to IASB. A nominal contribution would make clear our significant interest and stake in the workings of the IASB, and might encourage other public pension funds to follow our lead.

9. The IASB would like to establish effective dialogue and an ongoing relationship with CalPERS and other organizations. CalPERS suggested the Council of Institutional Investors, (CII), the International Corporate Governance Network (ICGN) and the Asian Corporate Governance Association (ACGA). CalPERS also directed IASB to Jamie Allen, Secretary General of the Asian Corporate Governance Association.

Next Steps

1. Continue ongoing dialogue with IASB through quarterly calls with the ICGN A&A Practices Committee.
2. Develop CalPERS ability to respond to critical comment letters which pertain to, or directly/indirectly impact, CalPERS as a defined benefit plan or as an investor.
3. Determine whether CalPERS wants to offer Trustee nominations for the IASC Foundation.
4. Determine whether CalPERS wants to offer “visiting” staff appointments to the IASB. Any such appointment process would need to consider such issues as terms, salaries, qualifications, state personnel regulations, and relevant CalPERS policies.

V. STRATEGIC PLAN:

This item will further the following goals of CalPERS Strategic Plan:

- Goal VIII. Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.
- Goal IX. Achieve long-term, sustainable, risk adjusted returns.

VI. RESULTS/COSTS:

Costs associated with staff time are contained within the Investment Office budget.

Mary Hartman Morris
Investment Officer

Eric Baggesen
Senior Investment Officer

Theodore H. Eliopoulos
Interim Chief Investment Officer

George Diehr, Chair,
Investment Committee